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Gearing Up for the Next Round Of Mortgage Lending Scrutiny

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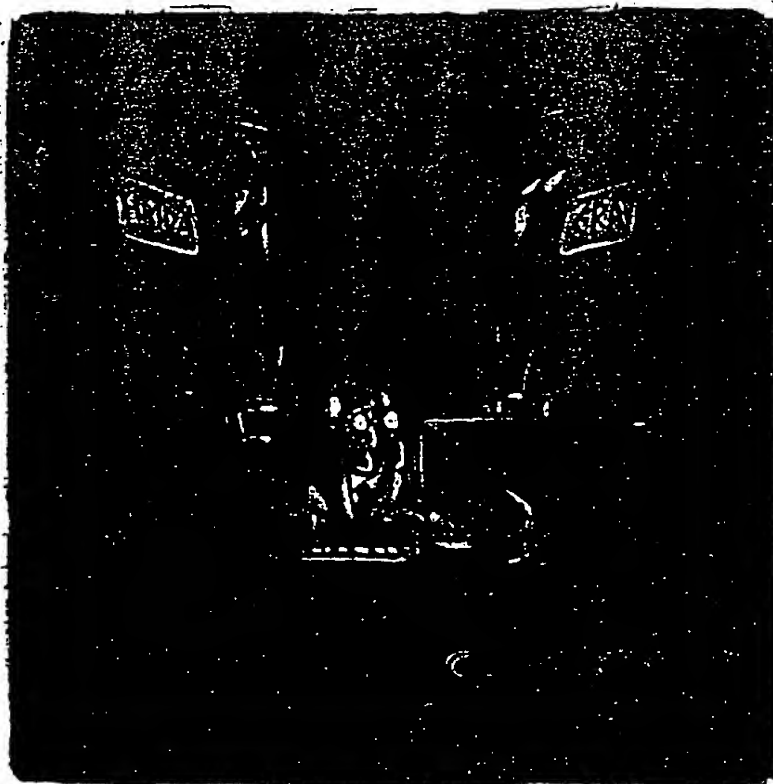


Illustration by David Wynn

As banks struggle to cope with the latest round of Home Mortgage Disclosure Act and Community Reinvestment Act compliance, they are being bombarded with a wide array of so-called software "solutions." Here's how to tell if you're getting the most for your money.

If you think staying in compliance with the Home Mortgage Disclosure Act (HMDA) and Community Reinvestment Act (CRA) is getting tougher, you're right. Under pressure from Congress, the regulators are cracking down on banks' records in these areas, and some observers predict fines may be levied when HMDA data is released this fall.

"The regulators are going to get tough for the first time this year," says John R. Woloshen, Chief Executive Officer of Rata Associates, a software company in Lake Mary, Fla. "I think there will be some fines."

Rata Associates is one of a number of vendors that offer software and other products for HMDA and CRA compliance.

Banks are required under HMDA to fill out a loan/application register, which includes specific detailed information—including applicant's race or national origin, sex and income—on an application-by-application basis, about all first mortgages, second mortgages and home improvement loans. Errors or missing information on the register can subject an institution to civil penalties. The HMDA information compiled by the federal regulators is one tool used to monitor compliance with CRA.

The HMDA software on the market helps banks submit timely, accurate registers, and the higher-priced versions have features that help banks monitor their compliance with both HMDA and CRA.

Offerings range from the bare-bones compliance software, which

Resources and Painted Information, a number of service bureaus offer geocoding with various degrees of sophistication.

But some doubt the independent bureaus' competence in helping banks with HMDA and CRA compliance, noting that many do geocoding just for marketing purposes.

"If a bank thinks 'all I have to do is geocode,' they don't have it under control."

Says Roland Mangan, American Data Resources senior programmer: "We have some value added to (geocoding) that (independent bureaus) don't necessarily provide. Rata provides front-end and back-end processing of the data, adding value on the front-end and back-end."

"For companies doing just geocoding, the results aren't as good because it doesn't focus on all the HMDA parts," says CEO Woloshen. "They don't know how to work with MSAs.

"If a bank thinks 'all I have to do is geocode,' they don't have it under control," he says. "We screen data completely to government specs, and provide American Data Resources and Painted with special tables to help them."

But all the geocoding and mapping capabilities in the world are useless if a bank has to spend precious time re-keying in data that is available in a central place, but is in a format incompatible with the compliance software.

To cope with this, both Centrax and Rata allow banks to download data directly from the mainframe to the PC, eliminating time-consuming re-keying, which often introduces new errors into the system.

Centrax' product works by allowing the operator to build a template for each system. "At times, our product interfaces as many as nine systems," says Sparks of Centrax' marketing firm. This lets banks work with their own software format.

While Rata also allows banks to download data from the mainframe to the PC, its "Nexis" product lets banks convert any mainframe or PC data into a common format—either Rata's own format or directly into the approved agency electronic output. Because Rata sends its clients' records to an outside service bureau for processing, this feature ensures that information received from all the banks will be in a common format.

But Nexis' flexibility allows other applications, as well.

"Because it is so flexible, it can be turned around, and data can be uploaded to do geocoding," notes CEO Woloshen. "The elimination of double-keying in high-volume circumstances is Nexis' single greatest strength."

A representative from Rata client Chemical Financial Services, a unit of New York-based Chemical Bank, says he chose Rata over other vendors because of the company's

accuracy and willingness to work with particular applications.

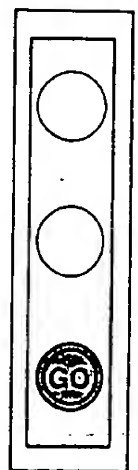
"If there were two different operating systems in the field, Nexis could adapt its system to both with no problem," says the representative. "It takes me just half an hour to take the weekly transmissions from the field and generate a report."

Software for Smaller Banks

That level of sophistication is important for large institutions like Chemical with vast branch networks, but smaller banks may not necessarily need all the bells and whistles.

"If you're just a tiny institution with less than 250 loans, the best bet is to use the free software provided by the agencies," says re-seller DeRubertis.

The Fed's HMDA Uniform PC Software allows banks to fill out the standard register and submit it electronically to the appropriate regulator. A sorting feature lets banks



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track loan disposition by race and sex, but not at a level that would be useful to larger institutions, says Lynn Barry, operations officer at the Federal Reserve Bank of St. Louis, which developed the product.

"Banks are realizing that the timeliness of data and the quality of data are becoming increasingly important issues," says Barry. "Our software will allow better quality data submission with the edits built in."

Sheshunoff Information Services of Austin, Texas, and DPSC Software of Calabasas, Calif., also offer basic compliance products that "work just fine, but are very limited in scope," says DeRubertis.

She adds: "Both companies have a set of core users who feel more comfortable using their program and support."

Support and Guarantees

However, the \$200-million Lakeside National Bank of Lake Charles, La., uses "Citytrax," Centrax' product for smaller banks. "In 1990, we looked around at what there was in the marketplace at the time," says Dan Eason, Lakeside vice president. "We got ate up on in early '90. The regulators wouldn't give us an 'outstanding' rating, but 'satisfactory,' because of (lack of) documentation."

In response, Eason turned to Citytrax, which he says "has made our geocoding really easy." Eason says Citytrax is cost-effective for his bank, which has only one MSA, or geographic market area, as defined by the Census Bureau. Citytrax users receive one update per year, while the larger Centrax users receive two, and Eason says Citytrax is about half the price of Centrax.

Eason also gets some marketing mileage from the information generated by Citytrax, using the data to figure out market penetrations, and where the bank's growth capabilities and opportunities are.

He also has used the system's mapping capabilities to head off an Association of Community Organizations for Reform Now (Acorn) protest. "Acorn came to us

and wanted our HMDA data," says Eason. "On the surface it looked bad, but we showed them the percentages by deposits that we put back into the community."

Rata also offers a version of its HMDA and CRA software for institutions with smaller volumes. CRA-1000 offers all the benefits and features of its HMDA-90/CRA product for up to 1,000 records.

But HMDA and CRA compliance is a moving target, and banks want vendors who will update their software as the rules change and provide additional support as needed.

For each product purchased, Rata offers one hour of telephone support, with no charge for its time. After that, the firm's normal service rate is \$100 per hour, but eight hour pre-paid packages are available for \$75 per hour. Express rates, where Rata "has to drop everything" to solve a complicated, last-minute problem can go as high as \$200 per hour, but are quoted on a job-by-job basis, says CEO Woloshen.

"Centrax is good, but I think Rata works a little more closely with the regulators right up to the last minute," says DeRubertis.

"If you're just a tiny institution with less than 250 loans, the best bet is to use the free software provided by the agencies."

"Last year, we ran into a couple of different problems from our end and spent hours on the phone with them," says the Chase Manhattan representative. "The Friday before the (HMDA) reporting deadline—their busiest day of the year—CEO John Woloshen spent four hours on the phone with us. We wrote a program based on his instructions.

"Rata either answered our questions right away or called back within an hour," the Chase representative says. "We have yet to find

a bug in the program, and we have about 20,000-plus records."

Rata also conducts one user seminar per year and in-house training is available. Rata guarantees one major update to its software per year and, periodically, as the regulations change.

Centrax has an 800 number for unlimited support and on-site customer training. Lakeside's Eason says he's been to several conferences put on by Centrax, and "they're right on the cutting edge." He notes that Centrax puts on seminars every year, which feature the best HMDA and CRA compliance programs by banks from across the nation.

But most striking, Centrax offers a money-back guarantee on its software. For HMDA, Centrax promises to ship an updated version of its software within 30 days of any published changes and guarantees an 85% geocoding match rate. For CRA, Centrax guarantees a CRA rating of "Satisfactory" or "Outstanding" provided the bank uses the product for CRA purposes on a quarterly basis at a minimum, as well as the same geocode guarantees found in HMDA.

But Vice President Woloshen questions the wisdom of offering money-back guarantees. "We find you can't offer guarantees for software," he says. "That shows Centrax' ignorance of the whole situation. It's impossible to guarantee with a software piece. Geocoding is only one-fifth of CRA responsibilities. The bank also has to find the problem areas, go out and seek business, advertise and document—that's what the regulators are looking for."

Of Centrax' 85% match rate guarantee, Centrax user National City's Bergstresser says: "If a bank is in an area that's less heavily populated, it's less likely that all the components will be there to give you that kind of a rate. But those of us in a more heavily populated urban area get at least that much."

And Centrax user Bert Wayne, senior vice president and CRA administrator at Wachovia Corp., chuckles: "I hope we never have to get our money back." **BM**